

Sandra L. Wagner
Director -
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March 17, 1995

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MAR 17 1995

FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON, D.C. 20554

Ex Parte

Mr. William F. Caton
Acting Secretary
Federal Communications Commission
1919 M Street, N.W., Room 222
Washington, D.C. 20554

Re: LEC Price Cap Review, CC Docket No. 94-1

Dear Mr. Caton:

In accordance with the Commission's rules governing ex parte presentations, please be advised that today, Jeff Olson and the undersigned representing Southwestern Bell met with James Coltharp, Special Advisor to Commissioner Andrew Barrett and Richard Welch, Legal Advisor to Commissioner Rachelle Chong to discuss SWBT's position as reflected in the record of the above referenced docket.

Please stamp and return the provided copy to confirm your receipt. Please contact me should you have any questions.

Sincerely,

A handwritten signature in cursive script, appearing to read "Sandra L. Wagner".
Attachments

cc: James Coltharp
Richard Welch

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NPV @ 11.25% of OWNERS NET INCOME (1995-1999)

Assumptions					A: Initial 1994 Earnings Level B: Alternative Achieved Productivity Profiles									
X	PCI Cut	Shar- ing	Add- Back	100% Sharing Begins	A	13.4%			14%			15%		
					B	4.5%	5%	5.5%	4.5%	5%	5.5%	4.5%	5%	5.5%
3.5% 0% Yes No 16.25% (approximates current plan)					16.5	16.9	17.2	17.0	17.3	17.6	17.7	18.1	18.3	
Low Option:														
4.0% 0% Yes Yes 13.25%					15.2	15.3	15.5	15.2	15.3	15.5	15.2	15.3	15.5	
4.0% 0% Yes Yes 16.25%					15.8	16.1	16.4	16.1	16.4	16.7	16.7	16.9	17.1	
High Option:														
4.5% 0% No NA NA					16.2	16.7	17.1	16.9	17.3	17.7	17.9	18.3	18.8	
5.0% 0% No NA NA					15.7	16.1	16.5	16.3	16.7	17.2	17.3	17.8	18.2	
5.5% 0% No NA NA					15.1	15.5	16.0	15.7	16.2	16.6	16.8	17.2	17.6	
6.0% 0% No NA NA					14.5	15.0	15.4	15.2	15.6	16.0	16.2	16.6	17.0	
6.5% 0% No NA NA					14.0	14.4	14.8	14.6	15.0	15.5	15.7	16.1	16.5	
7.0% 0% No NA NA					13.4	13.9	14.3	14.1	14.5	14.9	15.1	15.5	15.9	
Low Option:														
4.0% 3% Yes Yes 13.25%					14.8	15.0	15.1	14.8	15.0	15.1	14.8	15.0	15.1	
4.0% 3% Yes Yes 16.25%					14.9	15.2	15.5	15.3	15.6	15.9	15.8	16.1	16.4	
High Option:														
4.5% 3% No No NA					14.9	15.3	15.8	15.5	16.0	16.4	16.6	17.0	17.4	
5.0% 3% No No NA					14.3	14.8	15.2	15.0	15.4	15.8	16.0	16.4	16.8	
5.5% 3% No No NA					13.8	14.2	14.7	14.4	14.8	15.3	15.4	15.9	16.3	
6.0% 3% No No NA					13.2	13.7	14.1	13.8	14.3	14.7	14.9	15.3	15.7	
6.5% 3% No No NA					12.7	13.1	13.6	13.3	13.7	14.2	14.3	14.8	15.2	
7.0% 3% No No NA					12.1	12.6	13.0	12.8	13.2	13.6	13.8	14.2	14.6	

Value Effects of Regulatory Restrictions

Tightened Sharing Bands:

Current plan vs. 12.25% to 13.25% sharing range (with addback):

- Reduces Value by \$1.1B to \$1.4B (7% to 9% loss in value)
- Based on industry average performance

1% Increase in Productivity Offset:

Increasing the productivity offset by 1%:

- Reduces Value by approx. \$1.2B (7% loss in value)
- Value calculation above only considers 5 years. Effect compounds geometrically each year.

"Per-Line" Common Line Treatment:

Revise Common Line Price Cap Formula to "Per-Line" Treatment:

- Reduces Value by approx. \$1B (6% loss in value)
- Effects compound geometrically, like productivity offset.
- Equivalent to 0.7% to 0.8% increase in productivity offset.

Up-Front Reductions in Price Caps:

A 1% Reduction on Price Cap Indexes:

- Reduces Value by approx. \$0.5B (3% loss in value)

A 3% Reduction on Price Cap Indexes:

- Reduces Value by approx. \$1.4B (9% loss in value)

Notes: Values based on NPV of LEC Net Income over 1995-1999 (5 years). The value of each variable noted above has been determined individually. These variables in combination interact, and are therefore not strictly additive.

**Communications
Workers of America
AFL-CIO, CLC**

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Morton Bahr
President

March 14, 1995

The Honorable Reed Hundt
Chairman
Federal Communications Commission
Washington, D. C. 20554

Dear Mr. Chairman:

CWA has long been concerned about the stability of employment in the telecommunications industry. Our members are eager to and deserve to be involved in the construction of the information highway of the future. In order for this to occur, the local exchange companies need a regulatory process that is more in line with competitive pressures and provides the right incentives for large capital expenditures. It is for this reason that we support the USTA plan filed in the Price Cap proceeding.

During the past several years, the Commission has taken strong action to encourage interstate access services to new competitors. Today, competitive access providers, cable companies, interexchange carriers and others have entered and are continuing to enter the business, thus providing alternatives to the local exchange carriers. We are also seeing local exchange carriers investing in interexchange access providers outside of their own service territories.

It is a fact that the long haul part of the interstate telecommunications system already has tremendous capacity. We now have the task of attracting capital for the construction of the tens of thousands of miles of local facilities that require technological upgrading as well as the need to increase capacity. It is our judgment that the Price Cap plan can help provide the incentives for investment by the Local Exchange Carriers and thereby create many new employment opportunities for union workers. As you are aware, when the construction of these local "off ramps" is done by the vast majority of the cable companies or the CAPs, there are few union jobs involved. What is generally involved is a low wage contingent workforce.

By changing the Price Cap plan in line with the proposed alternative, we believe the skilled union workforce will have a much better chance to participate in the business of the future.

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Changes in the way the FCC regulates local exchange carrier depreciation are also critical. The present system unfairly discriminates against local carriers in favor of cable companies, CAPs and interexchange carriers.

Please give serious consideration to our views on this issue. CNA members' future participation in the information age infrastructure is closely tied to the future health of the local exchange industry. This is an opportunity to make a real impact for those workers who helped build the best telecommunications industry in the world.

Sincerely,


Morton Behr
President